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PP RUEHWEB

DE RUEHQT #0505/01 1611513  
ZNR UUUUU ZZH  
P 091513Z JUN 08  
FM AMEMBASSY QUITO  
TO RUEHC/SECSTATE WASHDC PRIORITY 8992  
INFO RUEHBO/AMEMBASSY BOGOTA 7591  
RUEHBU/AMEMBASSY BUENOS AIRES 0767  
RUEHCV/AMEMBASSY CARACAS 3060  
RUEHLP/AMEMBASSY LA PAZ JUN LIMA 2639  
RUEHGL/AMCONSUL GUAYAQUIL 3600

UNCLAS QUITO 000505

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [EC](#)

SUBJECT: Shooting the Messenger: Correa Blasts Central Bank for Disappointing Economic Data

Ref. Quito 374

1. (U) Summary. President Correa harshly criticized the Central Bank's calculation of economic growth and foreign direct investment, adding that he was bringing an Argentine mission to review the data and threatened to fire Central Bank staff if there are errors. Finance Minister Ortiz subsequently clarified that the GOE would work with experts from the Andean Development Corporation (CAF), ECLAC, and Argentina to review Ecuador's economic data methodology. End summary.

#### Correa Criticizes Central Bank Experts

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2. (U) On June 1, in his Saturday radio address, President Correa criticized the Central Bank for its economic data. He first criticized the Central Bank for its foreign direct investment (FDI) data, asking how there could have been a net outflow in the fourth quarter of 2007. (Note: Per the Central Bank, there was a net outflow of \$295 million in that quarter, reducing total net FDI for 2007 to a disappointing \$178 million - reftel.) He then criticized its GDP calculations, noting that one sector (agriculture) experienced a significant adjustment as the Central Bank updated its data. (Note: He made no mention of overall growth rates.) He then said that "we have hired an Argentine mission" to review the data, and if the data "are not true" the Central Bank technicians "would be fired."

3. (SBU) Correa's announcement sparked concern among Ecuadorian analysts that the GOE would alter politically inconvenient economic data. There was already concern prior to Correa's blast, since the Central Bank is over two months late in releasing 2007 fourth quarter GDP data, and attributed the delay to recalculation of base year data. The reference to an Argentine mission only heightened the concern, since the Government of Argentina is believed to be manipulating its inflation data.

4. (U) That same week Central Bank FDI data, which had previously been available on its website, were removed from the website, although net FDI flows were still published in balance of payment data that remained on the website.

#### Finance Minister Milder, Announces Revised Growth Calculations

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5. (U) On June 4, Finance Minister Ortiz announced that Ecuador would bring three sets of experts to help the GOE review its economic data. According to Ortiz, the Andean Development Corporation (CAF) would assist the Ministry of Finance develop its own data analysis capacity, the Economic Commission for Latin America and Caribbean (ECLAC) was invited by the Central Bank, and an unnamed Argentine technician would participate in the process.

6. (U) Ortiz also announced the revised Central Bank GDP growth

estimate for 2007, 1.9%, and its forecast for 2008 (3.1%). These are down from the Central Bank's previous estimates, which had been 2.65% for 2007 and 4.25% for 2008. The revised 2007 growth estimate is comparable to the IMF's calculation of 1.8%. (As of June 6, the updated GDP data had not been posted on the Central Bank's website.)

#### Inflation Data on the Sidelines

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¶17. (U) Also on June 4, Byron Villacis, the head of the National Institute for Statistics and Census (INEC), which calculates the inflation rate, said that there were no immediate plans to change the inflation methodology. But he added that the current methodology heavily weighs goods purchased by the upper and middle class. He said that the next survey to establish the consumer basket, which probably would take place in 2009, would reflect the "reality of consumption in Ecuador, but with a technical and transparent process."

¶18. (U) On June 5, INEC released the latest inflation data, which climbed to 9.29% on an annual basis, up from 8.18% the month before.

#### Comment

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¶19. (SBU) Correa's harsh criticism of the Central Bank in large measure appears to be a political ploy to undermine the credibility of disappointing economic data before the release of the GDP statistics. It's possible that the GOE may fiddle with the economic data, which post will monitor, but drawing on CAF and ECLAC assistance suggests that the GOE may take a more pragmatic approach than Correa's initial rhetoric would imply.

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